Warburg Dillon Read

Credit Research **Global**

Holding Company for Financial Investments – LAKAH GROUP ('LAKAH')

29 September 1999

Background and general investment considerations

Holding Company for Financial Investments – Lakah Group ('Lakah') is one of Egypt's largest private-sector companies and in 1998 generated revenues of LE649.9m (USD191.1m) and net profits of LE101.7m (USD29.9m). Lakah is a Healthcare and Industrial conglomerate organised into two divisions, conducting its business through eight main operating subsidiaries. The Healthcare division generated circa 64% and 60% of group revenues and net profit in 1998 and includes businesses involved in: the supply and after-sale servicing of a full range of medical equipment manufactured by leading international equipment suppliers; turn-key hospital construction and medical equipment leasing. Lakah's existing Healthcare operations are expected to grow strongly as Lakah leverages its strong market positions and exploits new market opportunities in Egypt (eg, medical consumables). Lakah's Industrial division generated circa 36% and 40% of group revenues and net profit in 1998 and includes companies involved in: the manufacture and trading of steel billet (a semi-finished steel product); the production of glass light bulbs and various industrial holdings (including the ownership of a detergent factory). Businesses within Lakah's Industrial division are generally capital-intensive but generate strong profits, firstly because of their good competitive position (Lakah manufactures products where there are shortages in domestic production) and, secondly, due to the benefits of domestic regulation (eg, anti-dumping laws, corporate tax holidays). It carries the second-highest domestic credit rating for a private-sector Egyptian company (Nile rating AA-, a member of Fitch IBCA) and was recently awarded a BB+ international long-term debt rating by Fitch IBCA, which has assigned Egypt a BBB- sovereign rating.

➤ The Lakah group has a *diversified revenue and earnings stream* with subsidiaries within the Healthcare division characterised by high-margin, labour-intensive activities, complementing subsidiaries within the Industrial division that are more capital-intensive but generate good profits.

➤ In the Healthcare division, Lakah's subsidiaries have established *leading market positions*. For example, Lakah is the leading supplier of medical imaging equipment (eg, CT scanners, X-ray machines etc) in Egypt. This leadership is based upon excellent supplier relationships (Toshiba – medical imaging equipment) and unrivalled after-sales service (eg, Lakah can often guarantee customers a minimum up-time of 95% for equipment sold). With respect to the supply of other medical equipment, Lakah has successfully grown the market share of international equipment manufacturers in Egypt, such as Hewlett Packard and Draeger.

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- Lakah is also a *leader in turn-key hospital construction projects*, achieving a market share of 71% in Egypt in 1998 (revenues are split 60/40% between private and public-sector customers). Lakah's excellence in medical turn-key projects is based upon strong vertical integration between its four Healthcare subsidiaries, allowing the division to out-perform rivals in terms of speed, cost and quality of construction (as well as price).

- In the Industrial division, Lakah's businesses exhibit *defensive qualities* due to good competitive positioning and domestic regulations. Lakah's Industrial subsidiaries generally focus on market segments where there is a shortage of domestic production (eg, steel billet and light bulbs). Some subsidiaries within the Industrial division benefit from domestic regulation (eg, Arab Steel has a ten-year corporate tax holiday) and businesses focused on import substitution benefit from anti-dumping regulations. As a result of its leading market positions in Healthcare and good competitive positions within the Industrial division, Lakah generates high profit margins and strong EBITDA.

- Lakah has *promising growth opportunities* in Healthcare both in Egypt and abroad (eg, Turkey and Greece) which management is keen to exploit. One particular growth opportunity in Egypt is the leasing of medical equipment, where private-sector demand far exceeds Lakah's willingness to supply this service. Nevertheless, Lakah intends to grow its leasing activities on a controlled basis to a targeted level of 20% of Healthcare revenues. The lease book currently totals LE210m (USD61.8m), split between Medequip (LE134m [USD39.4m]) and TMSE (LE76m [USD22.4m]).

- The group faces a number of *general business and financial risks* that are recognised and, where possible, mitigated. For example, in medical equipment leasing, the group applies strict criteria in assessing potential lessors and believes it has understood and can adequately control the main risks inherent in the business. The minimal incidence of bad debts and overdue accounts (LE175,000 [USD51,471]) currently supports this argument.

- Lakah's *key credit ratios are satisfactory*, though on a consolidated basis there is not a long track record to analyse. In 1998, net profit and EBITDA margins were high (16.3% and 24.8% respectively). EBITDA generation has been good and is growing strongly. Levels of working capital are high relative to turnover, though this is a reflection of Lakah's business mix, strategy and normal payment and collections practices within Egypt. For 1998, debt/EBITDA of 4.1x and EBITDA/interest of 2.8x was satisfactory. On a pro forma basis (post the prospective bond issue), gearing is in line with historical levels.

- Lakah produced an *excellent set of 1999 interim results* with strong growth achieved in revenues (actual – LE744.1m [USD218.9m]), net profits (actual – LE153.8m [USD45.2m]) and EBITDA (actual – LE200.5m [USD59.0m]) over the comparable 1998 period. Profit margins improved and key credit ratios also strengthened (eg, debt/EBITDA fell to 3.1x and interest coverage rose to 5.8x).

- Lakah's *size, reputation and financial strength* within Egypt has not only helped it in bidding for new medical projects but also enabled it to *access long-term capital*. Lakah has successfully completed two domestic bond issues (LE250m and LE400m – the largest-ever completed in Egypt) and in July 1999 tapped the international equity markets with a USD102m GDR issue. Lakah has an excellent debt-maturity profile and adequate bank facilities to meet its current working-capital requirements. Lakah has a good local credit rating (AA-, Nile rating, Fitch IBCA) and was recently assigned a BB+ international counterparty rating by Fitch IBCA.

Holding Company for Financial Investments – LAKAH GROUP ('LAKAH')

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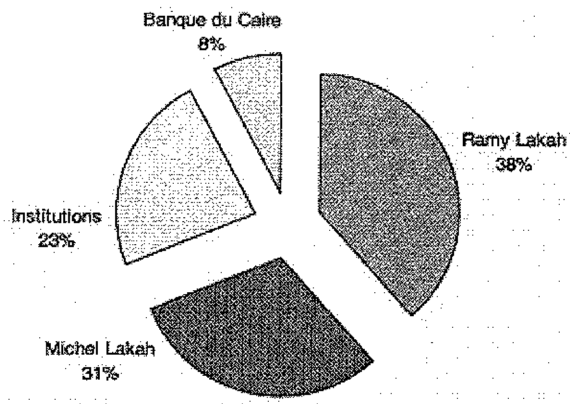
The Group

History

The Lakah family's involvement in various industries in Egypt dates back to the 1890s, when the family had interests in commodity trading, real estate, agriculture and various industrial concerns. In the 1960s, the Lakah family represented various suppliers of medical equipment throughout Egypt and had interests in the steel industry. Following the death of Raymond Lakah in 1985, his son Ramy assumed control of the medical and steel businesses and was soon joined by his younger brother Michel. Under their guidance, the group expanded its activities into medical-related construction, healthcare management and selective industrial activities. In December 1998, the Lakah family decided to transfer its main interests into a holding company to be listed on the Cairo Stock exchange – Holding Company for Financial Investments – the Lakah Group.

Ownership

Lakah is a family owned business but, following the successful USD102m GDR issue in July, the group now has a more diverse shareholder base.



Source: Lakah Group

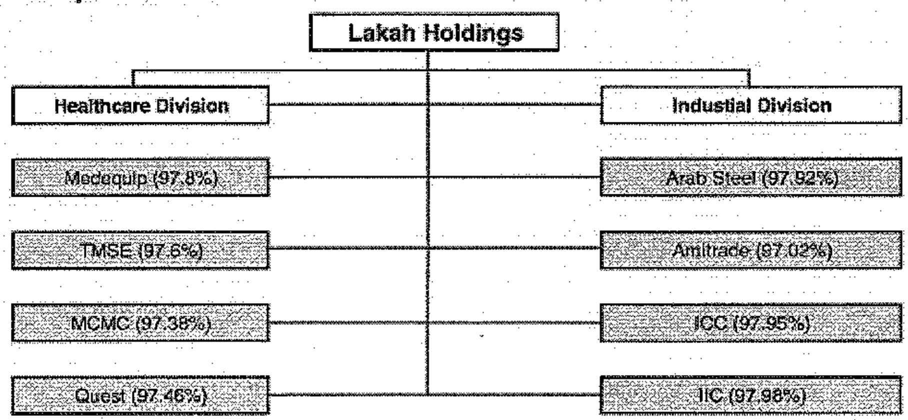
Management and control

As owners of the business, Ramy and Michel Lakah naturally wield considerable influence within the group. Key strategic decisions at holding company level are taken on a collective basis, with regular board meetings and votes. Lakah likes to promote management internally and, in general, board members have worked their way up through the group's main operating subsidiaries. This system promotes better understanding of the group at holding company level and incentivises ambitious line managers.

The Lakah group contains a diverse set of subsidiaries that require strict strategic and financial control, particularly as the group has many growth opportunities both at home and abroad. Through the setting and very close monitoring of monthly budgets, management at holding company level exerts strong strategic and financial control over the main operating subsidiaries.

Lakah believes that it has reasonable quality and depth of management within each operating subsidiary but, where there is not the case, the group will hire externally. The group has little difficulty recruiting experienced managers due to its prominent position in the Egyptian private sector and excellent track record. Lakah has low staff turnover but will tie in key personnel such as application specialists (vital for medical equipment sales and after-sales service), who take up to two years to train and are typically subject to a five-year tie-in period.

Group structure



Source: Lakah Group

Healthcare division

Medequip for Trading and Contracting ('MEDEQUIP')

The company's principal activities include: supplying a full range of medical equipment to hospitals and clinics under distributorship agreements with leading suppliers of medical equipment; turn-key hospital construction ; and the leasing of medical equipment. Medequip is the largest medical turn-key operator in Egypt. In 1998, subsidiary revenues were split as follows: medical equipment sales (27%), leasing (25%) and turn-key construction (48%). Medequip's three leading distributorships are with Hewlett Packard, Draeger and Keymed (in respect of Olympus equipment), accounting for 25%, 20% and 20% of equipment sales in 1998 respectively.

Trading Medical Systems Egypt ('TMSE')

TMSE's primary business activity is the marketing, importing, distributing and servicing of Toshiba Medical Systems imaging equipment throughout Egypt, the Middle East and North and West Africa. In 1998, CT scanners (35%), X-ray Systems (30%) and MRI scanners (17%) were the main contributors to total product sales.

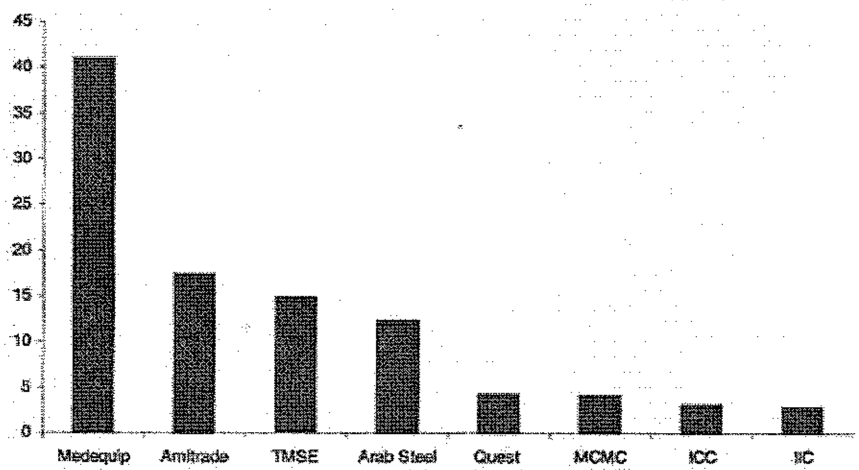
Medical Centres Management Company ('MCMC')

MCMC is principally engaged in managing 12 CT scanning clinics (seven in the greater Cairo region), for which it also supplies medical equipment. MCMC's goal is run 20 clinics by the end of 1999.

Quest Consult ('QUEST')

Quest has two main business activities – the finishing of construction work (eg, electrical fittings, air-conditioning, plumbing etc) primarily for hospitals and medical centres and, secondly, serving as a distributor of products for manufacturers of hospital building materials (eg, Polifen – fabricated Acryline sheets). Quest's revenues are mainly derived from Lakah group subsidiaries – circa 50% on an on-going basis.

Revenues by subsidiary as at 30 June 1999



Source: Lakah Group

Industrial division

Arab Steel Factory ('ARAB STEEL')

Arab Steel is a leading manufacturer of steel billet for sale in Egypt. Steel billet is a semi-finished product needed for the manufacture of other steel products (eg, steel-reinforced bars known as 're-bars') which are often used for reinforcing and strengthening concrete in the construction industry. Arab Steel only started commercial production in February 1998 and current production of steel billet at 280,000 tonnes is at 70% of total capacity (400,000 tonnes per annum).

Amitrade for trading and contracting ('AMITRADE')

This subsidiaries' primary activities are trading in iron and steel raw materials and acting as the exclusive distributor in Egypt for Toshiba elevators, escalators and moving walkways.

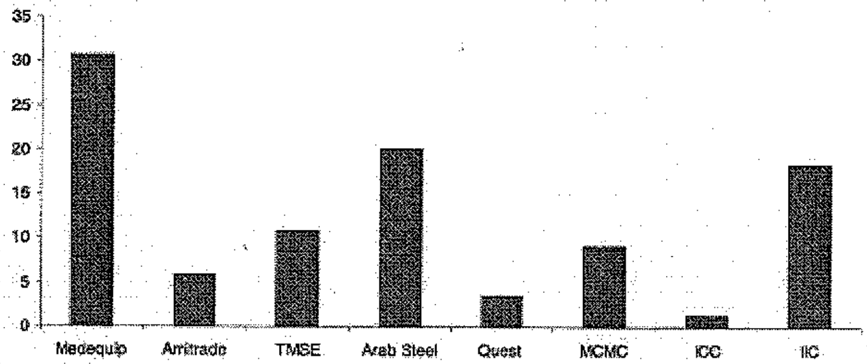
Industrial Consumer Company ('ICC')

ICC manufactures and sells a wide variety of light bulbs and fluorescent tubes for the Egyptian market. Since its acquisition in 1997, Lakah has upgraded production facilities and therefore full production was only reached by the end of 1998. In 1999, Lakah estimates that ICC can achieve a market share in Egypt for GLS lamps of 14% and a 27% share for fluorescent lamps.

Industrial Investment Company ('IIC')

IIC is a subsidiary that invests in a variety of Egyptian industrial companies including: heavy trucking (Universal); Suez (49% stake), a manufacturer of steel products for the construction industry; and various real estate assets (including a detergent factory currently leased on an annual rent of LE10m). Assets are held by ICC for their income yield and/or their potential for capital appreciation.

Net profit by subsidiary as at 30 June 1999



Source: Lakah Group

Key strengths

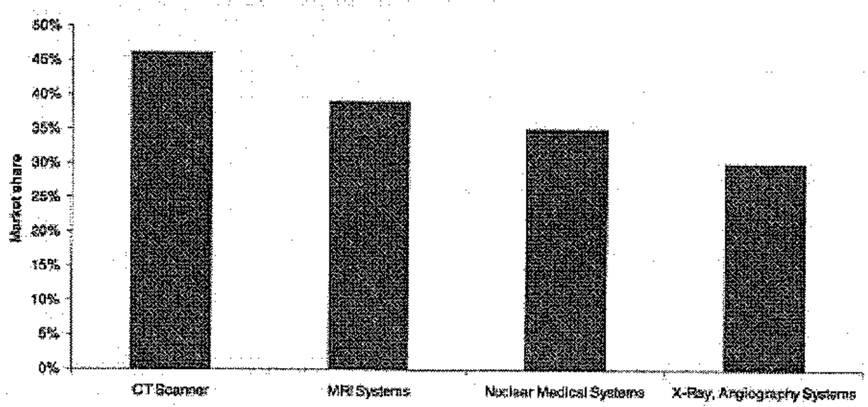
Diversified revenue and earnings base: the group is organised into two divisions: Healthcare and Industrial, each with four main operating subsidiaries. This portfolio of businesses gives a degree of diversification and therefore some resilience to consolidated revenues, profit margins and EBITDA. Within Healthcare, there is some degree of inter-dependence between the four main operating subsidiaries due to the benefits of vertical integration with respect to turn-key medical construction projects (see next section). Nevertheless, each of the four main Healthcare businesses operates as a separate business and profit centre. Unlike Healthcare, businesses within the Industrial division generate strong revenues and earnings from a higher tangible fixed asset base. Although Arab Steel is the main revenue and earnings generator within the Industrial division, it is expected that Amitrade, ICC and IIC collectively will make a significant contribution to divisional performance. Expansion of overseas activities will increase the diversification of revenues and earnings. Currently, 15% of the Healthcare's revenues are generated overseas and this figure is expected to rise to 20%.

Leading position in Healthcare – attractive industry with good growth prospects: Lakah's strong market position in Healthcare can be illustrated by its strong track record in two particular activities. These are turn-key hospital projects (key success factor – the high degree of vertical integration between its four Healthcare subsidiaries) and the sale of medical imaging equipment (key success factors – excellent supplier relationship and excellent after-sales service).

Turn-key Medical projects: the majority of this work falls under Medequip's responsibility but a complete turn-key project can involve all four of Lakah's Healthcare subsidiaries. Lakah has deconstructed the turn-key value chain with each Healthcare subsidiary focusing on a separate activity. When these subsidiaries combine on a turn-key project, they can collectively beat rivals on cost and speed of construction as well as quality of finishing, yet still achieve very attractive profit margins. Lakah's track record in this sector is impressive, with Medequip having completed more than 40 hospitals, 20 clinics and 35 medical centres on a turn-key basis, primarily in Egypt. In 1998, Lakah achieved an estimated 71% market share (by value) of Egyptian medical turn-key projects. No other Egyptian company active in construction has in-house medical equipment supply capabilities.

Supply of Medical Imaging equipment: Lakah's success in the supply of medical imaging equipment by its subsidiary TMSE, is demonstrated by the fact that TMSE has grown Toshiba's market share in Egypt from 1% to 42% over the period 1987–1998. Toshiba is now the clear market leader in the Egyptian medical imaging equipment market. Lakah's success in selling medical imaging equipment is firstly based upon its excellent relationship with its medical equipment manufacturer. Lakah chooses manufacturers who target the top end of the medical equipment market and who are committed to a high level of research and development spending. Secondly, the group's success is based upon the delivery of superior after-sales service. Lakah employs highly trained technicians and application specialists fluent in three languages, which enables it to offer equipment users high levels of up-time (in many cases 95% – a level unmatched by competitors).

TMSE: Main products and market share



Source: Warburg Dillon Read

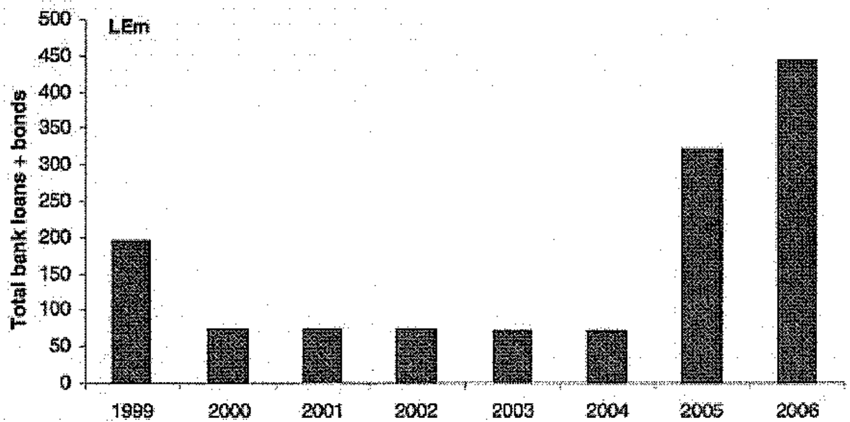
Industrial Division – businesses hold good competitive positions and benefit from domestic regulations: both Arab Steel & ICC (glass bulbs) target sectors where there was a shortage of domestic production, so there is not intense domestic competition. Because these companies achieve a governmental aim of import substitution, both benefit from domestic regulations (eg, anti-dumping regulations). Furthermore, Arab Steel is located in a designated industrial zone and therefore enjoys a ten-year corporate tax holiday.

Group generates strong profits and EBITDA: Lakah generates high pre-tax profit and EBITDA margins in both its Healthcare and Industrial divisions. EBITDA generation is strong and growing (eg, H1 99 EBITDA was LE200.5m [USD59.0m], a 111.3% increase over H1 98). This EBITDA growth will help support Lakah's desire to exploit organic growth opportunities both at home and abroad (eg, in Egypt – medical consumables).

Size and reputation: besides being one of Egypt's largest private-sector companies in terms of paid in equity capital (circa LE1.5bn [USD441.2m]), the combination of Lakah's size, reputation and excellent track record are particularly helpful to the group when tendering for new contracts at home and abroad.

Access to long-term equity and debt capital: Lakah's size and good credit standing has enabled it to access both the domestic and international capital markets for long-term capital. This not only lowers the group's cost of capital and lengthens the debt-maturity profile, but also facilitates the long-term growth of businesses within the Healthcare and Industrial divisions. Lakah enjoys excellent relations with local banks and is helped by having one of Egypt's largest banks (Banque du Caire) as a shareholder. Lakah has good credit ratings. It has been awarded the second-highest domestic credit rating for a private-sector Egyptian company (Nile rating AA-, Fitch IBCA) and is expected to be assigned a BB+ international counterparty rating by Fitch IBCA (Egypt's sovereign rating is BBB-, Fitch IBCA).

Debt maturity profile



Source: Warburg Dillon Read

Key risks

Macroeconomic

Sovereign risk: this relates to any factors or events that could materially affect the performance of businesses within the Healthcare or Industrial divisions. For example, a change in government or government policy which would reduce the present budget allocation for Healthcare and impact the demand for medical equipment or medical turn-key projects. Any factors or events that could lead to a slowdown in the Egyptian construction industry (and hence demand for steel re-bars and ultimately steel billet). Any events that could restrict the company's access to the foreign exchange market and thus prevent purchase of currency needed to acquire medical equipment. A currency devaluation, which might result in price increases for medical equipment sold, could affect revenues or profit margins within Healthcare (eg, Medequip, TMSE).

Business risks

Seasonality: Lakah has a particularly strong H1 (January–June), which reflects seasonal Healthcare payments from the public sector (prior to their financial year-end in June) and a general slowdown in business conditions in H2 (mainly due to holidays in the July–August period). In 1998, H1 accounted for 70% and 59% of annual revenues and EBITDA respectively.

Cyclicality: one would expect Lakah's steel billet manufacturing activities (Arab Steel) to be cyclical with potentially volatile profit margins. Much of the demand for steel billet is based upon its conversion into reinforced steel bars for use in the construction industry. The construction industry in Egypt is, however, currently exhibiting strong growth. Furthermore, there is a shortage of domestically produced steel billet, which could give some support to end-product prices. One would also expect Arab Steel to face volatile raw material input prices. However, local Egyptian scrap metal prices (circa 50% of total production costs) are not linked to international prices and are therefore less volatile. Finally, Arab Steel is currently operating at 70% capacity and further economies of scale will be realised as capacity utilisation increases – thus providing some support for profit margins.

Supplier risk: Lakah's supply relationships across all product ranges for medical equipment are excellent (unsurprising given its track record in growing most suppliers' market share in Egypt). Supply relationships are well documented. In the event of a major dispute or loss of service contract, Lakah believes that such a loss would damage the supplier more than the company. Without Lakah's excellent after-sales service, it believes that the suppliers' market share would fall. The costs to Lakah of switching suppliers are not considered high, though its service representatives would have to be re-trained and revenues and costs would inevitably be affected.

Competition: **Healthcare:** in the area of medical equipment supply, Lakah's main competitors are Siemens*, GE and Philips. Both compete in virtually all Lakah's medical equipment markets but cannot match Lakah's after-sales service. Regarding turn-key hospital construction, no Egyptian construction company has the capability of sourcing, installing and managing medical equipment in-house, in addition to its general construction capability. At present, Lakah has no major competititors in medical equipment leasing. With respect to turn-key medical projects, Lakah's main competitors are local Egyptian construction companies who do not possess Lakah's integrated in-house medical equipment supply and servicing capabilities.

MEDEQUIP: main products, market share and key competitors, 1998

Supplier	Product	Market share	Main competition
Hewlett Packard	Patient Monitoring	60%	Space Labs (20%)
	Ultrasound Imaging	60%	ATL (15%)
	Cardiology	45%	Physio Control (15%)
Draeger Medezin	Anesthesia	35%	Ohmeda (40%)
	Ventilators-Intensive Care	35%	Bennet (40%)
	Neo-natal Care	45%	ALM (20%)
	Med Architectural / Gas Management	40%	Medap (20%)
Olympus Optical Co.	Flexible Endoscopy	70%	Pentax (15%)
	Surgical Endoscopy	25%	Storz (40%)

Source: Lakah Group

TMSE: main products, market share and key competitors, 1998

Supplier	Product	Market share	Main competitor
Toshiba	CT Scanner	46%	Philips (24%)
	MRI Systems	39%	GE (33%)
	Nuclear Medical Systems	35%	Siemens (25%)
	X-Ray, Angiography Systems	30%	Philips (33%)

Source: Lakah Group

Industrial*:* by virtue of targeting markets where there are domestic production shortages, businesses within the industrial division do not face intense domestic competition. International competition is a factor for Arab Steel but Lakah believes that it has cost and other competitive advantages. For example, Lakah benefits from low local labour and transport costs, as well as Egyptian anti–dumping regulations. Furthermore, Egyptian billet typically forms 80% of steel re-bars and re-bars containing domestically produced billet qualifies for an Egyptian certificate of origin, allowing it to be exported to the Gulf & other Arab States free of import duty. Lakah's lightbulb manufacturer ('ICC') does not face intense domestic competition and believes that its lightbulb products are of superior quality to those produced in China (a source of competitive imports).

**Warburg Dillon Read acts as broker to Siemens*

Leasing: The business: leasing activity is currently undertaken by both Medequip and TMSE and accounts for circa 12% of Healthcare (9% of group) revenues. Demand from the private sector for leased medical equipment is high and exceeds Lakah's willingness to supply such a service. Nevertheless, the group has a reasonably sized leasing book (currently LE210m [USD 61.8m] (split Medequip LE134m [USD39.4m] and TMSE LE76m [USD 22.4m]). Leasing revenues are eventually expected to grow to 20% of total Healthcare revenues. The incentive for Lakah to lease is twofold; not only does it make a good profit margin under the service contract but it also charges a margin (minimum 3%) over its cost of funds (back-to-back finance is arranged from local banks with maturities matching the tenor of the lease).

The risks: Lakah believes that it understands and can reasonably control the main risks in leasing medical equipment (eg, non-payment, delayed payments, damage to equipment, cost of recovering equipment etc). The group employs reasonably rigorous criteria before granting a lease, only providing equipment to clinics and doctors with an established track record and operating in areas of high population density. Lessees are therefore judged to be able to generate *strong and immediate cash flows* to meet lease payments. Lease terms vary from six months to five years, but Lakah retains title to the equipment until the last lease payment is made. Notwithstanding the reputational risk, it is a criminal offence for cheques to be returned in Egypt. The group also takes out insurance to cover any damage to equipment (but has yet to make a claim). To date, out of a lease book totalling LE210m [USD61.8m], Lakah has had no bad debts and has had to reschedule circa LE175,000 in payments. To facilitate greater transparency and control of risk, it would make sense for Lakah's leasing operations to be separated into a new subsidiary.

Year 2000 compliance: on the Healthcare side, Lakah believes that it is on track to complete the necessary modifications to medical equipment that it has sold. In the Industrial division, Lakah has indicated that Arab Steel is well prepared for any potential impact from Y2K issues on its operating performance.

Financial risks

Large working capital requirements: for the Lakah group, working capital as a proportion of net sales is high (69% for full-year 1998), but this is just a reflection of Lakah's mix of businesses, competitive strategy and normal collection and payment practices within Egypt (usually six months in each case).

Healthcare: in the area of medical equipment supply, Lakah's strategy of providing superior after-sales service means that it must carry a large inventory of spare parts. Lakah's success in bidding and winning medical turn-key construction projects means that there is considerable work in progress to finance which is not always covered by up-front payments.

Current assets also include a proportion of lease receivables. Debtor collection periods in Egypt are long – up to six months. On the payments side, medical equipment purchases from foreign manufacturers, though generous, are normally shorter than the usual six-month payment period in Egypt. **Industrial:** Arab Steel has a policy of holding six months' scrap to ensure continuity of supply.

Foreign exchange and interest-rate risk: the main exposure to exchange-rate risk relates to purchases of medical equipment (against matched orders) made following spot purchases of foreign exchange. Lakah has argued that it could pass on price increases if necessary to preserve profit margins in the event of a currency devaluation. With respect to hedging the foreign currency risk on this proposed bond – 15% of Healthcare's revenues are currently generated outside Egypt (in USD) and this is expected to grow to circa 20%. Regarding Lakah's potential exposure to rising interest rates, around 87% of group debt has been raised at fixed rates of interest.

Summary historical financial performance

Lakah Group – pro forma consolidated (1) (LEm)	1998	H1 98	H2 98	H1 99	H1 99 (USD)
Net sales	649.9	454.4	195.5	744.1	218.9
Gross profit	210.9	123.9	87.0	254.6	74.9
Interest expense	(57.9)	(27.8)	(30.1)	(37.3)	11.0
Net profit	105.9	66.6	39.3	153.8	45.2
EBITDA	161.1	94.9	66.2	200.5	59.0
Working capital (2)	446.5	301.8	446.5	824.4	242.4
Total assets	2,059.7	N/A	2,059.7	2,389.9	702.9
Total debt	655.8	430.2	655.8	964.4	283.6
Net worth	1,149.9	1,122.6	1,149.9	1,299.1	382.1
Tangible net worth (3) 'TNW'	863.5	N/A	863.5	1,009.3	296.9
Gross profit margin (%)	32.5	27.3	44.5	34.2	34.2
Net profit margin (%)	16.3	14.7	20.1	20.7	20.7
EBITDA margin (%)	24.8	20.9	33.9	27.0	27.0
Working capital/net sales (%)	68.7	N/A	68.7	87.7	87.7
Debt/EBITDA (x)	4.1	N/A	4.1	3.6	3.6
EBITDA/interest (x)	2.8	3.4	2.8	5.4	5.4
Total debt/net worth (%)	57.0	38.3	57.0	74.2	74.2
Total debt/TNW (%)	76.0	N/A	76.0	95.6	95.6

Source: Warburg Dillon Read; Exchange rate: USD1 = LE3.40; Pro-forma financial information was provided by the company; (1) Excluding the results of Scandanavian for Investment & Touristic Development. Working capital is defined as current assets minus current liabilities. (3) Tangible net worth is defined as shareholder's equity minus deferred expenses, goodwill & minority interests. Goodwill arose following the formation of the holding company and the purchase of shares in Arab Steel, Medequip &TMSE for amounts in excess of their book value on the Cairo Stock Exchange. (4) See Appendix 1 for summary financial results of Medequip, TMSE and Arab Steel.

1998 results – summary highlights

- No 1997 group comparative figures are available because the new holding company was only formed in November 1998. Comparables are available at subsidiary level. There was strong revenue growth at Medequip where net sales grew by 26% in 1998, reflecting higher volumes of equipment sales (including leasing) and an increase in medical turn-key construction activities.

- Gross and net profit margins at group level were very high (32.5%, 16.7%) with strong contributions from most subsidiaries. Despite only commencing production in 1998, Arab Steel achieved gross and net margins of 34.2% and 15.9%.

- The group's EBITDA margin was excellent (24.9%) and overall EBITDA generation was strong – LE161.1m.

- Working capital as a proportion of net sales was high (69%) for reasons explained in a previous section, namely Lakah's mix of businesses, strategy and normal collection and payment practices within Egypt.

- Gearing as measured using tangible net worth ('TNW') was 76% at year-end, with other measures of financial risk quite satisfactory – debt/EBITDA was 4.1x and EBITDA/interest coverage was 2.8x.

Excellent 1999 interim results – summary highlights

- There was strong revenue growth across the group but particularly in Healthcare (Medequip + 88.7% over H1 98). The exception was Arab Steel, where slightly lower billet prices affected revenues and profit margins offsetting the beneficial financial impact of higher production volumes.

- For H1 99, gross and net profit margins at group level (34.2%, 20.7%) were higher than for H1 98 and full-year 1998 numbers.

- Group EBITDA margin remained very high . The H1 99 EBITDA margin of 27.0% exceeded the H1 98 and full-year 1998 relatives (20.9%, 24.8%) with a high margin achieved at Arab Steel (56.2%). EBITDA growth for H1 99 (+111.3% vs H1 98) was exceptionally strong (particularly at Medequip and Arab Steel), but there was solid growth at most of the group's main subsidiaries.

- Working capital/net sales rose to 87.8%, mainly because of a rise in medical turn-key construction activities.

- Gearing (using tangible net worth) of 95.6% was reasonably high at 30 June 1999 but other credit ratios strengthened – debt/EBITDA was 3.6x and EBITDA/interest Cover was 5.4x.

Pro forma gearing analysis post GDR and proposed bond issue

Pro forma(1) LEm	30/6/99	GDR (2)	Bond (3)		USD
Cash/cash equivalents	121.7	+346.8	+340.0	808.5	237.8
Total debt	964.4		+340.0	1,304.4	383.6
Net worth	1,299.1	+346.8		1,639.9	482.3
Tangible net worth (3) 'TNW'	1,009.3	+346.8		1,356.1	398.9
Total debt/net worth (%)	74.2			79.6	79.6
Total debt/TNW %	95.6			96.2	96.2

Source: Lakah Group; Exchange rate: USD1 = LE3.40; (1) Excluding the results of Scandanavian for Investment & Touristic Development . (2) USD102m raised using USD1:LE3.40 as the exchange rate. Proposed bond issue – assuming USD100m is raised. (3) Tangible Net Worth is defined as shareholder's equity minus deferred expenses, goodwill & minority interests.

Gearing as measured on a tangible net worth basis increases marginally (to 96.2%) post GDR and prospective bond issue. This is because the group is raising circa 102:100 equity/debt and gearing was already 95.6% pre-GDR and prospective bond issue. Gearing in isolation is not a good measure of financial risk, as debt/EBITDA and EBITDA/interest multiples should also be considered.

Debt and liquidity

Lakah has an excellent debt-maturity profile, mainly due to its ability to raise long-term bond finance.

Debt: breakdown and maturity profile

LEm	1999	2000	2001	2002	2003	2004	2005	2006
Bank loans	123.9	1.6	1.6	1.6	0.0	0.0	0.0	0.0
Bonds	71.5	71.5	71.5	71.5	71.5	71.5	321.5	444.0
Total	**195.4**	**73.1**	**73.1**	**73.1**	**71.5**	**71.5**	**321.5**	**444.0**

Source: Lakah Group

Lakah has excellent relationships with domestic Egyptian banks. The group believes that bank facilities currently available to the group are adequate to meet current seasonal peaks in working capital and its needs going forward. At present, circa 45% of total short-term bank facilities are drawn. With respect to short-term bank facilities (in the above table LE123.9m (USD36.4m)), the group has not had and nor does it anticipate any difficulty in rolling-over these facilities.

Appendix 1

Summary historic financials

MEDEQUIP (LEm)	1997 12m	1998 12m	1999 6m	1999 6m (USDm)
Net sales	201.0	253.5	330.1	97.1
Gross profit	37.6	67.3	100.2	29.5
Interest expense	(8.2)	(14.7)	(6.6)	(2.0)
Net profit	7.1	27.3	66.8	19.6
EBITDA	8.0	30.3	73.4	21.6
Working capital (1)	73.9	159.1	366.1	107.7
Total assets	170.9	344.3	613.8	180.5
Total bank debt	115.1	191.6	178.3	52.4
Tangible net worth (2)	20.4	121.4	166.1	48.9

TMSE (LEm)	1997 12m	1998 12m	1999 6m	1999 6m (USDm)
Net sales	117.2	138.8	124.5	36.6
Gross profit	23.8	35.3	35.8	10.5
Interest expense	(5.1)	(6.0)	(3.3)	(1.0)
Net profit	8.3	18.1	22.6	6.6
EBITDA	10.6	20.6	26.3	7.7
Working capital (1)	(1.7)	10.5	49.8	14.6
Total assets	140.6	153.5	186.0	54.7
Total debt	83.7	77.6	79.4	23.4
Tangible net worth (2)	24.1	66.7	82.2	24.2

ARAB STEEL (LEm)	1997 12m	1998 12m	1999 6m	1999 6m (USDm)
Net sales	N/A	186.8	98.8	29.1
Gross profit	N/A	64.0	29.9	8.8
Interest expense	N/A	(28.5)	(15.6)	4.6
Net profit	N/A	29.7	28.9	8.5
EBITDA	N/A	34.5	55.5	16.3
Working capital (1)	36.8	162.5	184.3	54.2
Total assets	378.4	560.2	597.2	175.6
Total debt	251.8	270.0	286.3	84.2
Tangible net worth (2)	97.1	256.4	287.0	84.4

Source: Lakah Group; Exchange rate: USD1 = LE3.40; (1) Working Capital is defined as current assets minus current liabilities; (2) Tangible Net Worth is defined as shareholder's equity minus deferred expenses, goodwill & minority interests.

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